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USDA - PASS TO USDA/FAS/EXPORT CREDITS FOR ROBIN TILSWORTH,  
ACTING DEPUTY ADMINISTRATOR AND USDA/FAS/EXPORT CREDITS FOR  
RON CROUSHORN, DIRECTOR, PROGRAMMING DIVISION.

E.O. 12958: N/A

TAGS: EAGR EAID YM

SUBJECT: YEMEN REQUEST FOR FY07 COMMODITIES DONATION UNDER  
THE FOOD FOR PROGRESS PROGRAM

REF: SECSTATE 99922

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SUMMARY  
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1.(U) Embassy Sanaa seeks \$20 million in FY2007 Food for Progress commodities donations. The commodities will be used for rural agricultural development program assistance geared to capacity building and market reform, poverty alleviation through micro credit financing programs, and meeting critical water needs through environmentally sound projects in water capture and irrigation.

2.(U) Yemen is a nascent democracy still in transition from the political and economic strife caused by the unification of North and South Yemen in the mid-1990s. The country is the poorest nation in the Middle East and is currently contending with explosive population growth, severe malnutrition, and a looming water shortage crisis. Amid these challenges, the Republic of Yemen Government (ROYG) has remained committed to establishing democratic institutions, sustainable development and economic reform based upon free market principles. Yemen is also a valued partner in USG efforts to combat terrorism. An FFP commodities donation is not only well deserved but an excellent mechanism for enhancing the image of the USG in the eyes of the average Yemeni. END SUMMARY.

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Yemen is an FFP Priority Country  
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3.(U) Yemen is a nascent democracy still in transition from the political and economic strife caused by the unification of North and South Yemen in the mid 1990s. The poorest country in the Middle East, Yemen has a per capita GDP of approximately \$720 dollars and has one of the fastest growing population rates in the world at 3.2 percent. The population of Yemen now stands close to 20 million and is expected to double within ten years. More than 75 percent of the population resides in rural areas and more than 50 percent of the children under the age of 5 are moderately to severely malnourished. The World Bank has declared that the water shortage in Yemen is an extreme crisis, citing the country's move toward a market-driven agriculture sector as a contributing factor. All of these factors combine to present extraordinary challenges for the agriculture sector in Yemen, from the Ministry of Agriculture down to the poor, rural, subsistence farming families. The USDA FFP program will assist the ROYG in its struggle to overcome these challenges and enhance the image of the USG throughout Yemen, especially among the rural population.

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USG Coordination with Strong Yemen Stakeholders  
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4.(U) Since the beginning of the USDA food aid programs in 1999, the Embassy has worked closely with the USDA / FAS offices in Washington and Cairo in order to accomplish the goals of the program and provide real benefits for the Yemeni people. Additionally, the Embassy has identified and developed strong ties with Yemeni officials in the Social Fund for Development (SFD), the Public Works Project (PWP), the Ministry of Agriculture and Irrigation (MAI) and the Ministry of Planning and International Cooperation (MOPIC). True partners, these officials have demonstrated their commitment to the objectives of the food aid program.

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Commodities Requested and Market Impact  
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5.(U) Commodities Requested: Due to the critical nature of the situation in Yemen, Post requests \$20 million dollars in commodities donations from the Food For Progress program; \$15 million of soft white wheat (SWW) and \$5 million of wheat flour.

6.(U) Market Impact: Due to the rocky and mountainous terrain and desert conditions, Yemen is not, and will never be, a major grain producing country. Local production of wheat in Yemen represents only 5.4 percent of the market, while imports represent more than 94 percent. The amount of wheat and flour imported exceeds two million tons per year. U.S. wheat and flour face stiff competition in the Yemen market from Australian and Russian commodities of lower quality.

Commodity donations of wheat and flour will not impact the domestic production and will increase Yemeni consumers' exposure to U.S. wheat and flour products, thereby increasing demand and allowing U.S. wheat and flour exports to command a higher market share in Yemen.

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Justification  
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7.(U) Justification: Yemen is a designated Food For Progress Priority country and the ROYG deserves the continued support of the USG at maximum levels. The ROYG has proven to be a dependable ally in the GWOT. The ROYG devotes much of its own resources to those efforts while it struggles to achieve its equally important goals of establishing and strengthening democratic institutions, economic reform, sustainable development, and the health and welfare of its citizens. The USDA FFP is ideally suited to enable Post to assist the ROYG in those important efforts. More importantly, FFP donations demonstrate the USG appreciation and support for the Yemeni people. The FY07 projects have been selected as those most likely to enhance the image of the USG in the hearts and minds of Yemeni citizens while mitigating some of the increasing economic and social challenges facing the ROYG.

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Use of Commodities  
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8. (U) Use of the Commodities: The commodities requested will be used to fund programs with three distinct goals: addressing the critical water shortage, poverty alleviation in rural agriculture communities, and improved capacity in the agriculture sector. The programs will be targeted to improve conditions in the five poorest governorates of Yemen. Through international tenders, Post hopes to work with our Yemeni partners to fund programs designed to accomplish our goals as follows:

A) Addressing the Water Crisis: Working with PWP, donation proceeds will go toward the alleviation of the water shortage through environmentally sound methods of water capture, desalination, and irrigation technology utilizing Yemen's great untapped renewable energy resources. The water shortage in Yemen is at crisis levels. The water table is currently falling at a rate of 20 feet per year and each year 80 percent of Yemen's water is used for agriculture but less than 30 percent of rural residents have access to drinking water. Water availability in Yemen is the lowest in the world, at 136 cubic meters annually per person compared to the world average of 7500 cubic meters per person. The amount of water needed to meet food production requirements for self sufficiency is 1,000 cubic meters per person annually. Yemen is an excellent candidate for the exploitation and use of renewable energy technology, specifically wind and solar powered desalination, water pumping, and irrigation technologies to increase the availability of water.

Yemen has a 2500 kilometer coastline, more than 3500 hours of sunlight per year and, due to the mountainous terrain throughout the country, natural wind tunnels with consistent wind speeds of 8 meters per second. Renewable energy technologies are uniquely suited to provide water and electricity to remote areas lacking water and electricity infrastructures. These systems will support greater capacity and higher quality produce. A collateral impact of these technologies will be an ability to utilize the technology for rural electrification and to provide farming communities with clean drinking water.

B) Poverty Alleviation: Working with SFD, donation proceeds will go toward poverty alleviation through rural micro-finance institutions and programs. The potential micro-credit market in Yemen is enormous and the sector is only in its infancy. In Yemen, 75 percent of the population live in rural areas and they depend upon farming as their sole source of earned income. More than 40 percent of the population live in poverty and less than 1 percent of Yemenis have banks accounts. The micro-finance programs will provide loans to individuals and families. The programs will also aim to increase the involvement of women in the family and community economies. These loans will allow small and micro entrepreneurs to obtain financial support for small private

sector initiatives. The programs will enable them to increase their income, create employment and income generating opportunities in their communities, and to stimulate local markets. The micro-finance programs funded will be concentrated in rural areas, financing agricultural activities and agricultural community businesses.

C) Increased Agriculture Trade Capacity: Under the Integrated Framework for Trade Development Strategy, working with the Ministries of Agriculture and Trade, donation proceeds will go toward trade capacity building measures in the agricultural sector, training programs focused on agribusiness skills, export/import reform measures, market development, and market access programs in agriculture. The agriculture sector in Yemen is underdeveloped. The donation proceeds will be used to fund development programs focused on agriculture trade development and market access, and training in rural communities to increase the agribusiness skills of farmers. Finally, the programs will serve to fund programs focused on reform measures designed to encourage and support greater production in the agriculture sector through agricultural trade capacity development measures and increased market access for agriculture products. By partnering with Yemen on reform and training measures designed to increase trade development activities in the agriculture sector and agribusiness skills in the rural communities, the USG will enhance its image among the individual farmers and farming communities as they realize greater prosperity through increased capacity and market access.

Khoury